



# WEEKLY ECONOMIC DIGEST

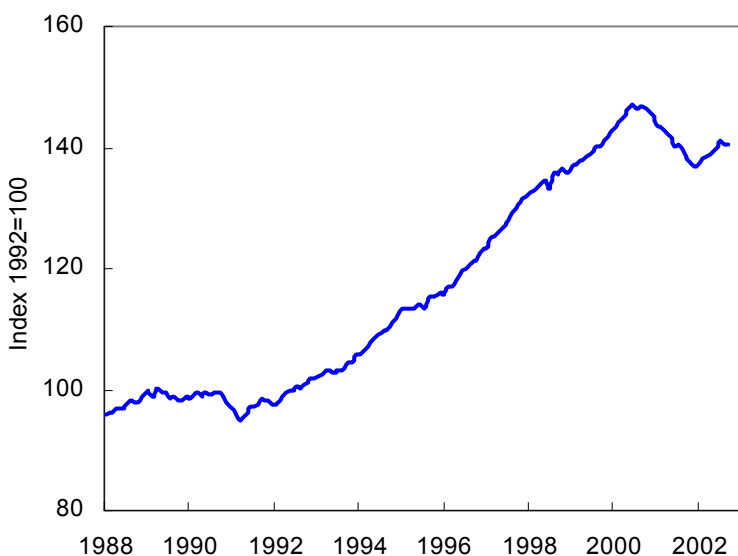


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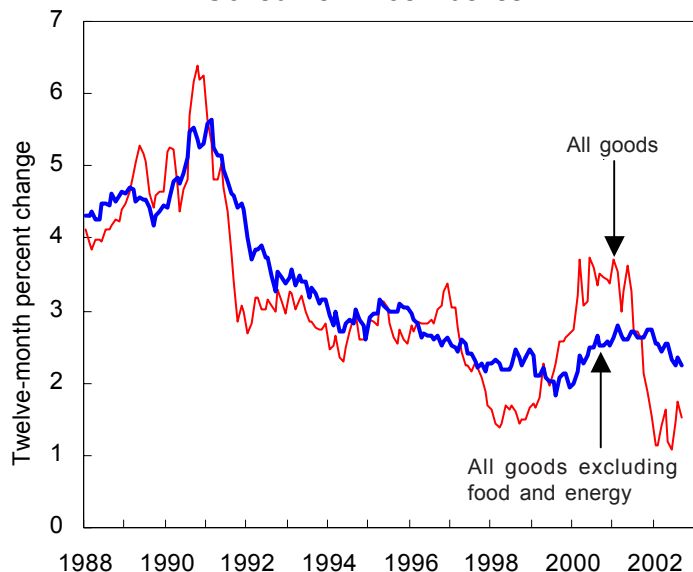
October 22, 2002

## Homebuilding Surged but Industrial Production Stalled in September

Industrial Production



Consumer Price Indexes



- **Housing starts surged in September.** Private housing starts jumped to more than 1.8 million last month, the highest level since mid-1986. September's spurt was even larger than would have been predicted based on falling mortgage rates and warmer temperatures alone. Issuance of permits for new residential construction also rose, suggesting that homebuilding is likely to remain strong in coming months.
- **Industrial production edged down.** Output in manufacturing, mining, and utilities slipped by 0.1 percent last month. Factory production fell by 0.3 percent, after falling 0.2 percent a month earlier. Although a sharp drop in motor vehicle production accounted for most of that decline, more than half of non-automotive manufacturing industries had flat or declining production in September. The slump in factory production portends continued weakness in employment.
- **Consumer price inflation was modest.** The consumer price index (CPI) grew 0.2 percent in September. Rising energy and food prices accounted for about half of that increase in the CPI. The core CPI (which excludes food and energy prices) rose by 0.1 percent. With the core index only 2.2 percent higher than a year ago, the near-term risks of a pickup in inflation remain low.
- **The U.S. trade deficit grew in August.** The U.S. deficit on international trade of goods and services grew to a record \$38.5 billion in August (the last month for which data are available). The rise in the trade deficit reflected lower exports and higher imports. Imports of non-automotive capital goods, however, fell to their lowest level since March.
- **Unemployment claims continue to signal weakness.** Jobless claims rose by 22,000 during the second week of October. That rise left the four-week moving average of claims at 408,750, confirming that labor markets remain very weak.

<b>Economy At A Glance</b>	Sep	Aug	Jul	Jun	2002 Qtr 3	2002 Qtr 2	2002 Qtr 1	2001 Qtr 4	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)						1.3	5.0	2.7	0.3	3.8
Industrial Production (% growth)	-1.2	-3.5	6.2	7.4	3.6	4.2	2.6	-6.7	-3.9	4.5
Capacity Utilization (Level, %)	75.9	76.0	76.3	76.0	76.1	75.6	75.0	74.7	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.6	5.7	5.9	5.9	5.7	5.9	5.6	5.6	4.8	4.0
Housing Starts (Thousands)	1843	1627	1645	1692	1707	1667	1725	1573	1603	1573
Real Disposable Personal Income (% growth)		2.4	0.0	7.4		3.6	14.5	-7.6	1.8	4.8
Retail Sales (% growth)	-13.5	7.4	15.3	17.8	7.3	4.3	-2.5	12.7	3.8	6.7
Personal Saving Rate (Level, %)		3.6	3.5	4.3		4.0	3.5	0.8	2.3	2.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	2.4	3.7	1.2	1.2	1.9	3.4	1.4	-0.3	2.8	3.4
Core CPI-U Inflation (% growth)	1.2	3.7	2.4	1.2	2.0	2.2	2.3	2.7	2.7	2.4
Compensation per Hour (% growth)						4.4	3.6	4.2	4.1	4.5
Output per Hour (% growth)						1.5	8.6	7.3	1.1	2.9
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.6	1.6	1.7	1.7	1.6	1.7	1.7	1.9	3.4	5.8
T-Note Rate, 10-years (Level, %)	3.9	4.3	4.7	4.9	4.3	5.1	5.1	4.8	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.7	1.7	1.8	1.7	1.8	1.7	2.1	3.9	6.2
Dow Jones Industrial Avg (Index level)	8161	8685	8617	9492	8488	9913	10105	9641	10189	10735

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Upcoming Economic Releases:

- **Federal Reserve's "Beige Book", October** [Release: Wednesday, October 23]
- **Manufacturers Shipments, Inventories, and Orders, September (Advance)** [Release: Friday, October 25]
- **New Residential Sales, September** [Release: Friday, October 25]
- **University of Michigan, Consumer Sentiment, October (Revised)** [Release: Friday, October 25]